First Resource Bank

ANNUAL REPORT

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FIRST RESOURCE EXECUTIVE MANAGEMENT

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BRIDGET M. MORAN
Senior Vice President, Retail Banking

Where Customer Satisfaction Comes **FIRST**

Dear First Resource Bank Shareholder:

We are pleased to report that the fourth quarter of 2019 concluded a year of exceptional growth. **The Bank achieved record net income for the year ended December 31, 2019 of $2,321,768;** this represents a 7% increase year over year. Our emphasis on sustained growth in both loans and deposits, with a consistent focus on managing overhead expenses, resulted in our best year to date.

Our 2019 highlights included:

- Total loans grew 15%.
- Total deposits grew 14%.
- Non-interesting bearing deposits grew 59%.
- Our percentage of checking increased to 23% of total deposits at year-end.
- Total assets grew to over $336 million.
- Total interest income grew 19%.
- Earnings per share grew by 6%.
- Return on Average Equity was 0.76%
- Return on Average Assets was 8.72%.
- The Bank opened its third location.
- For the third consecutive year, First Resource Bank was named the Best Bank in Chester County by the readers of the Daily Local News.

The Bank's commitment to sustainable growth initiatives continues to contribute to our overall success. In 2018, we strategically added a full time Chief Credit Officer whose persistent focus on decreasing non-performing assets resulted in a 54% decline as compared to our prior year-end. As of December 31, 2019, non-performing assets were 0.42% of total assets.

This reduction allowed the lending team to pursue one goal, generating new business. Their concentrated effort resulted in the Bank's best annual loan growth to date, at 15%, and our sixth consecutive year with loan growth of 10% or greater. During 2019, the Bank consistently exceeded projections, despite extreme rate and volume competition. In addition to the loan volume growth, we experienced a consistent flow of fee income from loan related activities.

During the volatile interest rate environment of the past two years, the Bank benefitted significantly from our improved non-interest bearing and low interest rate deposit balances. This improvement is evidenced by our increased checking account balances, as our percentage of checking to total deposits, expanded from 13% at December 31, 2016 to 23% at December 31, 2019. Total checking balances increased by 136% over the last three years, from $26 million at December 31, 2016 to $62 million at December 31, 2019. We are proud of these remarkable accomplishments and our ongoing efforts to focus the team on **checking, checking, checking.**

With the opening of our Wayne location on October 15, we launched our high touch, high tech, community banking model in an incredible market along the Main Line. This expansion of First Resource Bank's footprint represents our commitment to continued growth and provides local business owners with a dedicated partner who can provide unique financial solutions not readily available from the mega-banks. The geographic triangle created by our Exton, West Chester and Wayne locations encompasses over $12 billion in deposits, which significantly enhances our checking and deposit growth opportunities in the immediate future.

During the fourth quarter of the year, the Board of Directors was pleased to welcome Ann Duke as its newest Board Member. Ms. Duke, an attorney and longtime resident of West Chester, joined the board with a wealth of experience including having served as a former bank director, and as former Chester County Treasurer.

In December, the Board unanimously voted to promote Lauren Ranalli, co-founder of the Bank, to President and Chief Financial Officer. Since the Bank's inception 15 years ago, Ms. Ranalli has proven to be an invaluable asset. Her exceptional leadership and dedication to the Bank's mission have played an integral role in the Bank's overall growth and will be heavily relied upon as the bank continues to expand.

The Bank's continued growth and accomplishments are a direct reflection of the strategic planning and oversight by our Board of Directors. Their leadership paired with our management team's dedication to executing the plans set forth resulted in a successful 2019. We greatly appreciate the efforts of our employees who have provided excellent customer service. The Bank received both public and private customer accolades throughout the year; these tributes are the direct results of our exceptional team's customer service efforts every single day.

The Board of Directors recognizes and appreciates the continued support and patronage from our shareholders and our customers. We thank our employees for their unwavering dedication to customer satisfaction. With the continued partnership of our employees, shareholders and customers, the Bank is prepared to make additional investments in progressive technology in 2020, to continue to provide high-tech solutions to our growing marketplace. As we celebrate our 15th anniversary of delivering responsible financial solutions, catering to the needs and successes of our customer base, we invite you to grow with us. If you are not already banking with us, please give us an opportunity to earn your business so we can demonstrate why **First Resource Bank is Where Customer Satisfaction Comes First.**

Our shareholder's email contact list continues to grow. If you would like to be added, please send an email to gmarshall@firstresourcebank.com. If you have any questions about First Resource Bank or any of our available banking services, please feel free to contact Glenn by calling his cell at 610.996.6661.

Sincerely,

GLENN B. MARSHALL
PRESIDENT & CEO

JAMES B. GRIFFIN
CHAIRMAN OF THE BOARD

First Resource Bank

Financial Statements

December 31, 2019 and 2018

First Resource Bank

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Independent Auditor's Report

Board of Directors
First Resource Bank
Exton, Pennsylvania

We have audited the accompanying financial statements of First Resource Bank, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Resource Bank as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Philadelphia, Pennsylvania
March 27, 2020

Financial Statements

First Resource Bank

Balance Sheets

December 31,		**2019**		2018
Assets				
Cash and due from banks	$	**2,516,374**	$	5,734,677
Time deposits at other banks		**599,000**		599,000
Securities available-for-sale, at fair value		**30,159,670**		30,778,295
Securities held-to-maturity (fair value of $7,051,362 at December 31, 2019 and $6,782,503 at December 31, 2018)		**6,961,128**		6,983,895
Loans receivable, net of allowance for loan losses of $2,507,845 at December 31, 2019 and $1,990,253 at December 31, 2018		**277,694,527**		242,707,424
Restricted investment in bank stock		**1,539,600**		1,645,000
Bank premises and equipment, net		**8,675,596**		6,647,166
Accrued interest receivable		**830,339**		773,133
Bank owned life insurance		**5,692,706**		5,541,014
Other assets		**1,749,985**		1,037,794
Total Assets	$	**336,418,925**	$	302,447,398
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Noninterest-bearing	$	**50,616,321**	$	31,788,359
Interest-bearing		**219,183,573**		204,413,537
Total deposits		**269,799,894**		236,201,896
Short-term borrowings		**10,896,000**		17,000,400
Long-term borrowings		**21,045,500**		18,515,500
Subordinated debt		**3,994,591**		3,986,097
Accrued interest payable		**288,786**		219,788
Other liabilities		**2,416,797**		1,246,249
Total Liabilities		**308,441,568**		277,169,930
Shareholders' Equity				
Preferred stock; authorized 489,769 shares, none issued and outstanding		**-**		-
Common stock, $1 par value; authorized 20,000,000 shares; 2,768,729 shares issued and outstanding at December 31, 2019; and 2,628,316 shares issued and outstanding at December 31, 2018		**2,768,729**		2,628,316
Surplus		**16,761,668**		15,535,963
Accumulated other comprehensive income (loss)		**85,762**		(210,735)
Retained earnings		**8,361,198**		7,323,924
Total Shareholders' Equity		**27,977,357**		25,277,468
Total Liabilities and Shareholders' Equity	$	**336,418,925**	$	302,447,398

See accompanying notes to financial statements.

First Resource Bank

Statements of Income

Years Ended December 31,		**2019**		2018
Interest Income				
Loans, including fees	$	**14,793,138**	$	12,403,812
Securities		**509,268**		496,230
Other		**100,073**		62,951
Total Interest Income		**15,402,479**		12,962,993
Interest Expense				
Deposits		**3,556,578**		2,348,864
Borrowings		**732,271**		686,415
Total Interest Expense		**4,288,849**		3,035,279
Net interest income		**11,113,630**		9,927,714
Provision for Loan Losses		**786,129**		513,238
Net Interest Income After Provision for Loan Losses		**10,327,501**		9,414,476
Other Income				
Service charges and other fees		**284,655**		234,448
Bank owned life insurance income		**151,692**		149,082
Gain on sale of SBA loans		**24,463**		96,431
Referral fee income		**302,760**		-
Other		**101,625**		81,305
Total Other Income		**865,195**		561,266
Other Expenses				
Salaries and employee benefits		**4,826,060**		4,294,541
Occupancy and equipment		**817,652**		730,323
Professional fees		**384,113**		366,572
Advertising and promotion		**206,182**		195,357
Data processing		**532,578**		446,542
FDIC premium expense		**168,185**		177,932
Other		**1,384,115**		1,099,373
Total Other Expenses		**8,318,885**		7,310,640
Income before federal income tax expense		**2,873,811**		2,665,102
Federal Income Tax Expense		**552,043**		499,895
Net Income	$	**2,321,768**	$	2,165,207

See accompanying notes to financial statements.

First Resource Bank

Statements of Comprehensive Income

Years Ended December 31,	**2019**	2018
Net Income	**$ 2,321,768**	$ 2,165,207
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on available-for-sale securities	**375,311**	(152,900)
Tax effect	**(78,814)**	32,109
Total other comprehensive income (loss)	**296,497**	(120,791)
Total Comprehensive Income	**$ 2,618,265**	$ 2,044,416

See accompanying notes to financial statements.

First Resource Bank

Statements of Shareholders' Equity

	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2018	$ 2,621,887	$ 15,472,980	$ (89,944)	$ 5,158,717	$ 23,163,640
Net income	-	-	-	2,165,207	2,165,207
Other comprehensive loss	-	-	(120,791)	-	(120,791)
Sale of common stock (6,429 shares)	6,429	62,983	-	-	69,412
Balance, December 31, 2018	2,628,316	15,535,963	(210,735)	7,323,924	25,277,468
Net income	-	-	-	2,321,768	2,321,768
Other comprehensive income	-	-	296,497	-	296,497
5% stock dividend (131,492 shares)	131,492	1,152,120	-	(1,283,612)	-
Cash in lieu of fractional shares on 5% stock dividend	-	-	-	(882)	(882)
Sale of common stock (8,921 shares)	8,921	73,585	-	-	82,506
Balance, December 31, 2019	$ 2,768,729	$ 16,761,668	$ 85,762	$ 8,361,198	$ 27,977,357

See accompanying notes to financial statements.

First Resource Bank

Statements of Cash Flows

Years Ended December 31,	2019	2018
Cash Flows from Operating Activities		
Net income	$ **2,321,768**	$ 2,165,207
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for loan losses	**786,129**	513,238
Depreciation and amortization	**375,605**	342,815
Net amortization on securities	**56,001**	80,025
Net amortization of subordinated debt issuance costs	**8,494**	8,494
Amortization of servicing rights	**21,573**	19,587
Net accretion of deferred loan origination fees	**(278,672)**	(231,631)
Deferred tax (benefit) expense	**51,531**	(90,217)
(Gain) loss recorded on other real estate owned	**3,385**	(24,682)
Bank owned life insurance income	**(151,692)**	(149,082)
Proceeds from sales of SBA loans originated for sale	**363,015**	1,393,952
SBA loans originated for sale	**(338,552)**	(1,297,521)
Gains on sales of SBA loans originated for sale	**(24,463)**	(96,431)
Increase in accrued interest receivable	**(57,206)**	(112,382)
Increase in other assets	**(864,109)**	(68,396)
Increase in accrued interest payable	**68,998**	50,774
Increase in other liabilities	**1,170,548**	188,164
Net Cash Provided by Operating Activities	**3,512,353**	2,691,914
Cash Flows from Investing Activities		
Net increase in loans	**(36,027,439)**	(27,476,492)
Purchases of securities available-for-sale	**(21,949,597)**	(19,987,197)
Maturities and principal repayments of securities available-for-sale	**22,897,953**	17,692,695
Maturities and principal repayment of securities held-to-maturity	**12,346**	519,317
Redemption (purchase) of restricted bank stock	**105,400**	(210,400)
Purchase of Bank owned life insurance	**-**	(1,000,000)
Proceeds from sale of other real estate owned	**529,494**	224,096
Purchases of premises and equipment	**(2,404,035)**	(1,318,218)
Net Cash Used in Investing Activities	**(36,835,878)**	(31,556,199)
Cash Flows from Financing Activities		
Net increase in deposits	**33,597,998**	25,299,783
Net change in short-term borrowings	**(6,104,400)**	(996,600)
Proceeds from long-term borrowings	**5,280,000**	8,678,000
Repayment of long-term borrowings	**(2,750,000)**	(1,450,000)
Cash in lieu of fractional shares on 5% stock dividend	**(882)**	-
Sale of common stock	**82,506**	69,412
Net Cash Provided by Financing Activities	**30,105,222**	31,600,595
Net (decrease) increase in cash and cash equivalents	**(3,218,303)**	2,736,310
Cash and Cash Equivalents, Beginning of Year	**5,734,677**	2,998,367
Cash and Cash Equivalents, End of Year	$ **2,516,374**	$ 5,734,677
Supplementary Cash Flows Information		
Interest paid	$ **4,219,851**	$ 2,984,505
Federal income taxes paid	$ **491,195**	$ 585,605
Other real estate owned acquired in settlement of loans	$ **532,879**	$ 199,414
Initial recognition of operating lease right-of-use asset	$ **1,036,836**	$ -
Initial recognition of operating lease liability	$ **1,112,830**	$ -

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

First Resource Bank (the "Bank") is incorporated under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank is a full service bank providing personal and business lending and deposit services. As a state chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The region served by the Bank is the southeastern area of Pennsylvania.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Chester, Montgomery and Delaware Counties in Pennsylvania. Note 3 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one day periods. As of December 31, 2019 and 2018, the Bank had no federal funds sold.

The Bank maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

Comprehensive Income

Accounting principles generally recognized in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available-for-sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income, net of the deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by using the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial, commercial real estate and commercial construction. Consumer loans consist of the following classes: home equity loans and other consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity loans and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.

6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.

7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A majority of the Bank's loans are loans to business owners of many types. The Bank makes commercial loans for real estate development, equipment financing, accounts receivable and inventory financing and other purposes as required by the customer base.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and finished inventory or raw material. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or the term of the loan.

The evaluation of the adequacy of the allowance is based on an analysis which categorizes the entire loan portfolio by certain risk characteristics. The loan portfolio is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for loan losses.

1. Commercial loans are made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. These loans can be affected by economic conditions. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans include the borrower's accounts receivable, inventory and machinery and equipment.

2. Commercial real estate loans include long-term loans financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. These loans can be affected by economic conditions and the value of the underlying properties. Commercial real estate loans require a loan to value ratio of not greater than 80%. Loan amortizations vary from one year to twenty-five years and terms typically do not exceed 10 years. Interest rates can be either floating or adjustable periods of up to five years with either a rate reset provision or a balloon payment.

3. Commercial construction loans include loans to finance the construction or rehabilitation of either commercial properties or 1 to 4 family residential structures. The vast majority of the commercial construction portfolio finances 1 to 4 family residential properties. Construction loans generally are considered to involve a higher degree of risk of loss than occupied real estate due to uncertainty of construction costs. Inspections are performed prior to disbursement of loan proceeds as construction progress to mitigate these risks. These loans can also be affected by economic conditions. The commercial construction portfolio is focused on small spot lot builders and smaller building companies. These loans carry variable interest rates and are usually interest only loans with maturities ranging from one year to three years.

4. Home equity loans, home equity lines of credit, residential mortgages and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. These loans can be affected by economic conditions and the value of the underlying property. The risk is considered low on loans in these categories that are secured by first liens. The credit risk is considered slightly higher on loans in these categories with second liens as these loans are dependent on the value of the underlying properties and have the added risk of the subordinate collateral positions. Home equity loans require a loan to value ratio of not greater than 85% with limited exceptions. Home equity lines of credit have variable rates. Closed end home equity loans have maturities up to fifteen years and carry fixed interest rates. Residential mortgages have adjustable rates and terms up to thirty years.

5. Other consumer loans include installment loans, car loans and overdraft lines of credit. The majority of these loans are unsecured and therefore are considered to involve a higher risk of loss.

6. Cash collateralized loans consist of loans secured by deposit accounts. These loans have low credit risk as they are fully secured by their collateral.

The vast majority of the commercial and consumer loans are located in Chester County, Pennsylvania.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value, or the amount by which its carrying value exceeds its estimated fair value is charged-off. The estimated carrying values of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral or the present value of expected future cash flows.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

U.S. Small Business Association (SBA) Lending Activities

The Bank originates loans to customers in its primary market area under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. The Bank generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion in its portfolio. When the guaranteed portion of an SBA loan is sold, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income.

SBA servicing assets are recognized separately when rights are acquired through the sale of the SBA guaranteed portion. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. To determine the fair value of servicing rights, the Bank uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Bank incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses.

Servicing rights are amortized in proportion to, and over the period of, the estimated net servicing income or net servicing loss and measured for impairment based on fair value at each reporting date. The amortization of the servicing rights is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

Serviced loans sold to others are not included in the accompanying balance sheets. Income (losses) and fees collected for loan servicing are included within other income on the statements of income.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Owned Life Insurance

The Bank invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of officers. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2019 and 2018 is comprised of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of $1,489,600 and $1,595,600, respectively, and in Atlantic Community Bankers Bank ("ACBB") in the amount of $50,000 for both years. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. All restricted stock is recorded at cost.

Other Real Estate Owned

Other real estate owned ("OREO") is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. Such assets are recorded in other assets in the accompanying balance sheets. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal proceedings take place. OREO initially is recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. Any write-downs based on fair value at the date of foreclosure are charged to the allowance for loan losses. If an increase in cost basis results, it is classified as non-interest income unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and write-downs are included in other expenses. In addition, any gain or loss realized upon disposal is included in other expense. The Bank had OREO of $-0- at December 31, 2019 and December 31, 2018.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are depreciated over the lesser of the useful life, or term of the lease, including renewal options, if reasonably assured, on a straight-line basis. Construction in progress represents costs capitalized in connection with new branch facilities that were not complete and other assets that were not placed in service as of the balance sheet dates.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Employee Benefit Plans

The Bank has established a 401(k) Plan (the "Plan"). All employees are eligible to participate after they have attained the age of 18. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan. During 2019 and 2018, the Bank has elected to make a 3% safe harbor contribution for all employees. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2019 and 2018 was $120,688 and $104,629, respectively.

The Bank has implemented non-qualified Supplemental Executive Retirement Plans for certain executive officers that provide for payments upon retirement, death or disability. As of December 31, 2019 and 2018, other liabilities include $364,185 and $302,530 accrued under these plans, respectively. For the years ended December 31, 2019 and 2018, salaries and employee benefits expense includes $61,655 and $56,335 expensed under these plans, respectively.

Income Taxes

Deferred income taxes are provided on the balance sheet method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheets when they are funded.

2. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2019 and 2018 are summarized as follows:

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. government securities	$ 19,998,329	$ -	$ (6,529)	$ 19,991,800
U. S. government mortgage-backed securities - residential	10,052,782	122,334	(7,246)	10,167,870
	$ 30,051,111	$ 122,334	$ (13,775)	$ 30,159,670
Held-to-maturity:				
U. S. government mortgage-backed securities - residential	$ 71,632	$ 4,260	$ -	$ 75,892
Municipal bonds	6,889,496	87,146	(1,172)	6,975,470
	$ 6,961,128	$ 91,406	$ (1,172)	$ 7,051,362

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December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. government securities	$ 19,997,488	$ -	$ (13,089)	$ 19,984,399
U. S. government mortgage-backed securities - residential	11,047,559	20,624	(274,287)	10,793,896
	$ 31,045,047	$ 20,624	$ (287,376)	$ 30,778,295
Held-to-maturity:				
U. S. government mortgage-backed securities - residential	$ 84,145	$ 1,389	$ -	$ 85,534
Municipal bonds	6,899,750	514	(203,295)	6,696,969
	$ 6,983,895	$ 1,903	$ (203,295)	$ 6,782,503

The following tables show the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018.

December 31, 2019	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale:						
U. S. government securities	**$ 19,991,800**	**$ (6,529)**	**$ -**	**$ -**	**$ 19,991,800**	**$ (6,529)**
U. S. government mortgage-backed securities - residential	**995,223**	**(2,650)**	**517,732**	**(4,596)**	**1,512,955**	**(7,246)**
	$ 20,987,023	**$ (9,179)**	**$ 517,732**	**$ (4,596)**	**$ 21,504,755**	**$ (13,775)**
Securities held-to-maturity:						
Municipal bonds	**$ 260,515**	**$ (425)**	**$ 378,259**	**$ (747)**	**$ 638,774**	**$ (1,172)**

December 31, 2018	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale:						
U. S. government securities	$ 19,984,399	$ (13,089)	$ -	$ -	$ 19,984,399	$ (13,089)
U. S. government mortgage-backed securities - residential	228,753	(192)	9,539,869	(274,095)	9,768,622	(274,287)
	$ 20,213,152	$ (13,281)	$ 9,539,869	$ (274,095)	$ 29,753,021	$ (287,376)
Securities held-to-maturity:						
Municipal bonds	$ 2,163,644	$ (39,999)	$ 4,146,330	$ (163,296)	$ 6,309,974	$ (203,295)

As of December 31, 2019, thirty-six securities were in unrealized loss positions for less than twelve months due to interest rate fluctuations and fourteen securities were in unrealized loss positions for longer than twelve months due to interest rate fluctuations. As of December 31, 2018, eight securities were in unrealized loss positions for less than twelve months due to interest rate fluctuations and twenty-seven securities were in unrealized loss positions for longer than twelve months due to interest rate fluctuations. No securities were deemed to be other-than-temporarily impaired.

The amortized cost and fair value of securities as of December 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

December 31, 2019	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	**$ 19,998,329**	**$ 19,991,800**	**$ -**	**$ -**
Due after one year through five years	**-**	**-**	**1,046,698**	**1,048,313**
Due after five years through ten years	**-**	**-**	**4,928,643**	**4,997,415**
Due over 10 years	**-**	**-**	**914,155**	**929,742**
	19,998,329	**19,991,800**	**6,889,496**	**6,975,470**
U.S. government mortgage-backed securities - residential	**10,052,782**	**10,167,870**	**71,632**	**75,892**
	$ 30,051,111	**$ 30,159,670**	**$ 6,961,128**	**$ 7,051,362**

Securities with a carrying value of $2,039,000 and $1,725,000 at December 31, 2019 and 2018, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

During the years ended December 31, 2019 and 2018, there were no securities sold by the Bank.

3. Loans Receivable

The composition of loans receivable at December 31, 2019 and 2018 is as follows:

	2019	2018
Commercial	$ 30,753,073	$ 31,692,972
Commercial real estate	203,948,912	171,111,455
Commercial construction	29,623,273	20,581,905
Home equity	15,495,134	20,933,652
Consumer, other	1,097,960	897,310
Total loans	280,918,352	245,217,294
Unearned net loan origination fees and costs	(715,980)	(519,617)
Allowance for loan losses	(2,507,845)	(1,990,253)
Net Loans	$ 277,694,527	$ 242,707,424

Loan Sales

The Bank originates and sells loans secured by the SBA. The Bank retains the unguaranteed portion of the loan and the servicing on the loans sold and receives a fee based upon the principal balance outstanding.

During the years ended December 31, 2019 and 2018, the Bank sold SBA loans originated for sale for total proceeds of $363,015 and $1,393,952, respectively. The loan sales resulted in realized gains of $24,463 and $96,431 for the years ended December 31, 2019 and 2018, respectively. There were no SBA loans originated for sale held at December 31, 2019 and 2018.

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were $7,105,979 and $7,078,287 at December 31, 2019 and 2018, respectively.

The following summarizes the activity pertaining to the servicing rights using the amortization method for the years ended December 31, 2019 and 2018:

	2019	2018
Balance, Beginning	$ 135,197	$ 132,102
Additions	6,398	28,195
Impairment	(6,335)	(5,513)
Amortization	(21,573)	(19,587)
Balance, Ending	$ 113,687	$ 135,197

The risks inherent in the servicing rights relate primarily to changes in prepayments that result from shifts in interest rates. The servicing rights are included in other assets in the balance sheets.

4. Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2019 and 2018, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2019 and 2018:

2019	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 309,780	$ (61,163)	$ 17,517	$ 123,304	$ 389,438	$ 139,837	$ 249,601
Commercial real estate	1,275,390	(184,165)	2,283	601,392	1,694,900	-	1,694,900
Commercial construction	223,374	(49,466)	5,250	143,736	322,894	-	322,894
Home equity	170,753	-	-	(79,025)	91,728	-	91,728
Consumer, other	10,956	-	1,207	(3,278)	8,885	-	8,885
	$ 1,990,253	$ (294,794)	$ 26,257	$ 786,129	$ 2,507,845	$ 139,837	$ 2,368,008

2019	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 30,753,073	$ 996,515	$ 29,756,558
Commercial real estate	203,948,912	1,302,042	202,646,870
Commercial construction	29,623,273	-	29,623,273
Home equity	15,495,134	978,509	14,516,625
Consumer, other	1,097,960	209,469	888,491
	$ 280,918,352	$ 3,486,535	$ 277,431,817

2018	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 260,393	$ (149,845)	$ 19,171	$ 180,061	$ 309,780	$ -	$ 309,780
Commercial real estate	1,023,026	(154,000)	2,282	404,082	1,275,390	-	1,275,390
Commercial construction	238,589	-	5,750	(20,965)	223,374	-	223,374
Home equity	222,776	-	-	(52,023)	170,753	-	170,753
Consumer, other	7,169	-	1,704	2,083	10,956	-	10,956
	$ 1,751,953	$ (303,845)	$ 28,907	$ 513,238	$ 1,990,253	$ -	$ 1,990,253

2018	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 31,692,972	$ 1,612,077	$ 30,080,895
Commercial real estate	171,111,455	3,356,874	167,754,581
Commercial construction	20,581,905	70,241	20,511,664
Home equity	20,933,652	995,094	19,938,558
Consumer, other	897,310	216,791	680,519
	$ 245,217,294	$ 6,251,077	$ 238,966,217

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention and substandard within the Bank's internal risk rating system as of December 31, 2019 and 2018:

December 31, 2019	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	**$ 29,756,558**	**$ 202,646,870**	**$ 29,623,273**	**$ 14,546,574**	**$1,097,960**	**$277,671,235**
Substandard	**996,515**	**1,302,042**	**-**	**948,560**	**-**	**3,247,117**
	$ 30,753,073	**$ 203,948,912**	**$ 29,623,273**	**$ 15,495,134**	**$1,097,960**	**$280,918,352**

December 31, 2018	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	$ 30,080,895	$ 167,754,581	$ 20,511,664	$ 19,971,377	$ 897,310	$ 239,215,827
Special mention	-	-	-	728,800	-	728,800
Substandard	1,612,077	3,356,874	70,241	233,475	-	5,272,667
	$ 31,692,972	$ 171,111,455	$ 20,581,905	$ 20,933,652	$ 897,310	$ 245,217,294

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The following tables summarize information in regards to impaired loans by loan portfolio class as of and for the years ended December 31, 2019 and 2018:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	**$ 64,267**	**$ 64,267**	**$ -**	**$ 275,333**	**$ 15,464**
Commercial real estate	**1,302,042**	**1,420,990**	**-**	**2,574,265**	**45,426**
Commercial construction	**-**	**-**	**-**	**40,027**	**-**
Home equity	**978,509**	**978,509**	**-**	**986,864**	**52,462**
Consumer - other	**209,469**	**262,658**	**-**	**213,142**	**5,325**
With an allowance recorded:					
Commercial	**$ 932,248**	**$ 932,248**	**$ 139,837**	**$ 932,248**	**$ 970**
Commercial real estate	**-**	**-**	**-**	**-**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Home equity	**-**	**-**	**-**	**-**	**-**
Consumer - other	**-**	**-**	**-**	**-**	**-**
Total:					
Commercial	**$ 996,515**	**$ 996,515**	**$ 139,837**	**$ 1,207,581**	**$ 16,434**
Commercial real estate	**1,302,042**	**1,420,990**	**-**	**2,574,265**	**45,426**
Commercial construction	**-**	**-**	**-**	**40,027**	**-**
Home equity	**978,509**	**978,509**	**-**	**986,864**	**52,462**
Consumer, other	**209,469**	**262,658**	**-**	**213,142**	**5,325**

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 1,612,077	$ 1,612,077	$ -	$ 2,047,109	$ 114,018
Commercial real estate	3,356,874	3,752,822	-	3,708,976	53,855
Commercial construction	70,241	104,243	-	70,241	-
Home equity	995,094	995,094	-	976,017	41,283
Consumer - other	216,791	269,980	-	108,155	3,338
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Commercial construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer - other	-	-	-	-	-
Total:					
Commercial	$ 1,612,077	$ 1,612,077	$ -	$ 2,047,109	$ 114,018
Commercial real estate	3,356,874	3,752,822	-	3,708,976	53,855
Commercial construction	70,241	104,243	-	70,241	-
Home equity	995,094	995,094	-	976,017	41,283
Consumer, other	216,791	269,980	-	108,155	3,338

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2019 and 2018:

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial	**$ -**	**$ -**	**$ 932,248**	**$ 932,248**	**$ 29,820,825**	**$ 30,753,073**	**$ -**
Commercial real estate	**1,246,761**	**-**	**471,452**	**1,718,213**	**202,230,699**	**203,948,912**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**29,623,273**	**29,623,273**	**-**
Home equity	**174,605**	**285,884**	**-**	**460,489**	**15,034,645**	**15,495,134**	**-**
Consumer, other	**1,014**	**-**	**-**	**1,014**	**1,096,946**	**1,097,960**	**-**
	$ 1,422,380	**$ 285,884**	**$ 1,403,700**	**$ 3,111,964**	**$ 277,806,388**	**$ 280,918,352**	**$ -**

December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial	$ -	$ 523,799	$ 61,163	$ 584,962	$ 31,108,010	$ 31,692,972	$ -
Commercial real estate	727,104	-	2,366,163	3,093,267	168,018,188	171,111,455	379,756
Commercial construction	-	-	70,241	70,241	20,511,664	20,581,905	-
Home equity	-	578,735	295,305	874,040	20,059,612	20,933,652	295,305
Consumer, other	-	-	-	-	897,310	897,310	-
	$ 727,104	$1,102,534	$ 2,792,872	$ 4,622,510	$ 240,594,784	$ 245,217,294	$ 675,061

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2019 and 2018:

	2019	2018
Commercial	**$ 932,248**	$ 61,163
Commercial real estate	**471,452**	1,986,407
Commercial construction	**-**	70,241
Home equity	**-**	-
	$ 1,403,700	$ 2,117,811

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring ("TDR"). Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

There were no troubled debt restructurings during the year ended December 31, 2019.

The following table presents the Bank's troubled debt restructurings that occurred during the year ended December 31, 2018:

2018	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
Troubled debt restructurings:			
Consumer, other	2	$ 130,903	$ 130,903

There were no troubled debt restructurings with a payment default within twelve months of the restructure date, during the years ended December 31, 2019 and 2018.

At December 31, 2019 and 2018, the Bank had $-0- and $-0-, respectively, of residential real estate held in other real estate owned. At December 31, 2019 and 2018, the Bank had initiated foreclosure proceedings on approximately $-0- and $703,347, respectively, of loans secured by residential real estate.

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5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2019 and 2018 are as follows:

	2019	2018
Land	$ 2,609,586	$ 1,760,000
Land improvements	797,033	410,554
Buildings	5,063,741	3,222,489
Leasehold improvements	24,429	16,204
Furniture, fixtures and equipment	1,526,902	1,117,706
Computer equipment and data processing software	748,147	616,121
Construction in progress	-	1,255,306
	10,769,838	8,398,380
Accumulated depreciation and amortization	(2,094,242)	(1,751,214)
	$ 8,675,596	$ 6,647,166

Depreciation and amortization expense was $375,605 and $342,815 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2018, construction in progress represented expenditures the Bank had incurred related to a new branch. The Bank completed construction of the new branch during 2019.

6. Deposits

The components of deposits at December 31, 2019 and 2018 are as follows:

	2019	2018
Demand, non-interest bearing	$ 50,616,321	$ 31,788,359
Demand, interest-bearing	11,797,456	11,069,325
Money market accounts	102,433,910	101,887,847
Time, $250,000 and over	15,794,248	16,852,240
Time, other	89,157,959	74,604,125
	$ 269,799,894	$ 236,201,896

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Year ending December 31,	
2020	$ 61,825,076
2021	17,753,453
2022	1,996,471
2023	15,491,115
2024	7,886,092
	$ 104,952,207

At December 31, 2019 and 2018, the Bank had brokered deposits of $5,675,258 and $5,946,672, respectively.

7. Borrowings

Short-term borrowings at December 31, 2019 consist of an advance from the Federal Home Loan Bank (FHLB) of $10,896,000, due January 2, 2020 with interest at 1.80%. Short-term borrowings at December 31, 2018 consist of an advance from the Federal Home Loan Bank (FHLB) of $17,000,400, due January 2, 2019 with interest at 2.65%. The Bank utilizes overnight borrowings from the FHLB for cash flow needs.

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Long-term borrowings at December 31, 2019 and 2018 consisted of FHLB borrowings with the following maturity dates and interest rates:

	2019	2018
Fixed note at 1.998%, maturing on February 4, 2019	$ -	$ 1,000,000
Fixed note at 1.429%, maturing on April 1, 2019	-	850,000
Fixed note at 2.365%, maturing on May 15, 2019	-	900,000
Fixed note at 2.232%, maturing on February 3, 2020	1,000,000	1,000,000
Fixed note at 1.617%, maturing on March 30, 2020	850,000	850,000
Fixed note at 1.235%, maturing on June 3, 2020	2,000,000	2,000,000
Fixed note at 2.077%, maturing on June 17, 2020	437,500	437,500
Fixed note at 2.712%, maturing on August 27, 2020	652,000	652,000
Fixed note at 1.545%, maturing on January 21, 2021	2,198,000	2,198,000
Fixed note at 1.854%, maturing on March 30, 2021	850,000	850,000
Fixed note at 2.548%, maturing on February 28, 2022	1,000,000	-
Fixed note at 2.916%, maturing on May 16, 2022	900,000	900,000
Fixed note at 1.562%, maturing on June 2, 2022	2,000,000	2,000,000
Fixed note at 2.685%, maturing on February 2, 2023	1,000,000	1,000,000
Fixed note at 2.988%, maturing on May 15, 2023	900,000	900,000
Fixed note at 2.627%, maturing on February 27, 2024	1,000,000	-
Fixed note at 2.863%, maturing on March 22, 2024	1,078,000	1,078,000
Fixed note at 1.917%, maturing on July 23, 2024	1,500,000	-
Fixed note at 1.557%, maturing on August 7, 2024	1,780,000	-
Fixed note at 2.895%, maturing on February 3, 2025	1,000,000	1,000,000
Fixed note at 3.211%, maturing on May 15, 2025	900,000	900,000
	$ 21,045,500	$ 18,515,500

Borrowings from the FHLB are secured by a blanket lien on the Bank’s assets. The Bank has a maximum borrowing capacity with the FHLB of approximately $147,658,600 at December 31, 2019, of which $31,941,500 was outstanding.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window. All borrowings through this facility are secured by specific pledge of investments. There were no borrowings outstanding under this facility at December 31, 2019 and 2018.

8. Subordinated Debt

On July 31, 2015, the Bank issued $2 million in subordinated notes. These notes have a maturity date of September 15, 2025, and bear interest at a fixed rate of 6.50%. The Bank may, at its option, at any time on an interest payment date on or after September 15, 2020, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

On October 15, 2015, the Bank issued another $2 million in subordinated notes. These notes have a maturity date of October 1, 2025, and bear interest at a fixed rate of 6.50%. The Bank may, at its option, at any time on an interest payment date on or after October 15, 2020, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

The principal and unamortized debt issuance costs of subordinated debt at December 31, 2019 are as follows:

December 31, 2019	Principal	Unamortized Debt Issuance Costs	Net
6.5% subordinated notes, due September 15, 2025	**$ 2,000,000**	**$ 3,366**	**$ 1,996,634**
6.5% subordinated notes, due October 1, 2025	**2,000,000**	**2,043**	**1,997,957**
	$ 4,000,000	**$ 5,409**	**$ 3,994,591**

The principal and unamortized debt issuance costs of subordinated debt at December 31, 2018 are as follows:

December 31, 2018	Principal	Unamortized Debt Issuance Costs	Net
6.5% subordinated notes, due September 15, 2025	$ 2,000,000	$ 9,136	$ 1,990,864
6.5% subordinated notes, due October 1, 2025	2,000,000	4,767	1,995,233
	$ 4,000,000	$ 13,903	$ 3,986,097

All subordinated notes are not subject to repayment at the option of the noteholders. These notes are all unsecured and rank junior in right of payment to the Bank's obligations to its general creditors and qualify as Tier 2 capital for regulatory purposes.

9. Leases

In 2013, the Bank entered into an operating lease agreement for its corporate office. This lease commenced in May 2014 and has a ten year and seven month term with two additional five year option periods.

In 2019, the Bank entered into an amendment to the corporate office lease to expand the leased space. The amendment commenced in November 2019 and follows the same term as the original lease.

The Bank also has lease agreements for office equipment.

On January 1, 2019, the Bank adopted ASU No. 2016-02 *"Leases"* ("Topic 842") and all subsequent ASUs that modified Topic 842. All of the leases in which the Bank is the lessee are classified as operating leases, and therefore, were previously not recognized on the balance sheet. With the adoption of Topic 872, operating lease agreements are required to be recognized on the balance sheet as a right of use asset and a corresponding lease liability. The Bank has elected not to include short term leases (i.e., leases with initial terms of twelve months or less) on the balance sheet.

The following table presents the balance sheet classification of our ROU assets and lease liabilities, included in other assets and other liabilities, respectively.

Year ending December 31,	
Lease ROU assets	$ 907,841
Lease liabilities	977,155

The calculation of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to calculate the present value of the minimum lease payments, which is the Bank's incremental borrowing rate for a loan term similar to the lease term. The weighted-average remaining lease term was 4.90 years and the weighted-average discount rate was 2.66% as of December 31, 2019.

Lease expense was $155,467 and $146,435 for the years ended December 31, 2019 and 2018, respectively.

Cash paid on operating lease liabilities amounted to $162,492 and $149,224 for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments by year and in the aggregate for leases as of December 31, 2019 and 2018 are as follows:

Year ending December 31, 2019	
2020	$ 190,671
2021	211,501
2022	216,475
2023	219,489
2024	205,214
Thereafter	-
Total	1,043,350
Less: imputed interest	(66,195)
Total	$ 977,155

Year ending December 31, 2018	
2019	$ 145,175
2020	148,890
2021	152,604
2022	156,319
2023	160,033
Thereafter	149,818
Total	$ 912,839

10. Employment Agreements

The Bank has employment agreements with its chief executive officer and chief financial officer. The agreements include minimum annual salary commitments and change of control provisions. The Bank also has a change of control agreement with its chief operating officer. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreement.

11. Shareholders' Equity

During 2019, the Bank declared a 5% common stock dividend which resulted in the issuance of 131,492 common stock shares. All share and per share amounts are adjusted for the stock dividend.

The Bank has a Director Fee Plan. The Plan allows for non-employee directors to elect to receive a specified percentage of fees for services on the Board of Directors in the form of shares of the Bank's common stock. The purchase price for these shares is the volume weighted average price of the Bank's common stock as reported on the over-the-counter market on the OTCQX Marketplace for Banks, for the calendar quarter for which a Director's compensation is payable. During 2019 and 2018, the Bank sold 4,149 and 3,147 shares of common stock under this Plan.

The Bank has an Employee Stock Purchase Plan. The Employee Plan allows employees with at least six months of service and who customarily work more than five months per calendar year to purchase shares through a payroll deduction at a price set by the Capital Committee between 85 percent and 100 percent of the fair market value of such share on each quarterly purchase date. Payroll deductions for this Plan cannot exceed the lower of 5% of the employee's compensation or $2,500 per quarter. During 2019 and 2018, the Bank sold 4,772 and 3,282 shares of common stock under this Plan.

12. Federal Income Taxes

The components of federal income tax expense for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Current expense	$ 500,512	$ 590,112
Deferred (benefit) expense	51,531	(90,217)
	$ 552,043	$ 499,895

A reconciliation of the statutory federal income tax at a rate of 21% for 2019 and 2018 to federal income tax expense included in the statements of income for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Federal income tax at statutory rate	$ 603,500	$ 559,671
Tax exempt interest	(31,524)	(31,560)
Bank owned life insurance income	(31,855)	(31,307)
Other	11,922	3,091
	$ 552,043	$ 499,895

The components of the net deferred tax asset at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 460,967	$ 338,327
Organization and start-up costs	1,813	7,257
Supplemental executive retirement plan	76,479	63,531
Nonaccrual interest	13,356	19,162
Deferred rent	18,176	19,441
Unrealized loss on available-for-sale securities	-	56,018
Total deferred tax assets	570,791	503,736
Deferred tax liabilities:		
Deferred loan costs	(89,124)	(76,144)
Depreciation on premises and equipment	(271,790)	(107,534)
Prepaid expenses	(16,521)	(19,153)
Unrealized gain on available-for-sale securities	(22,798)	-
Total deferred tax liabilities	(400,233)	(202,831)
Net Deferred Tax Assets, Included in Other Assets	$ 170,558	$ 300,905

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes it is more likely than not that the Bank will realize the benefits of these deferred tax assets at December 31, 2019.

The Bank follows the provisions of Financial Accounting Standards Board ASC 740, *Accounting for Uncertainty in Income Taxes*. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50%. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more-likely-than-not” threshold guidelines, the Bank believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2019 and 2018, the Bank had no material unrecognized tax benefits or accrued interest and penalties. The Bank’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Bank is no longer subject to examination by taxing authorities for the years before January 1, 2016.

13. Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties). Loans receivable of related parties totaled $5,473,538 at December 31, 2019 and $6,843,277 at December 31, 2018. During 2019, $1,790,120 of advances were made and repayments totaled $3,159,859. Deposits of related parties totaled $8,665,713 and $8,658,571 at December 31, 2019 and 2018, respectively.

The Bank paid legal fees of approximately $3,626 and $4,996 to a law firm of a director for the years ended December 31, 2019 and 2018, respectively. The Bank uses a related party for site maintenance and for diesel fuel purchases for an onsite generator. Total payments to this related party were $-0- and $728 in 2019 and 2018, respectively.

14. Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank’s financial instrument commitments at December 31, 2019 and 2018 is as follows:

	Contract Amount	
	2019	2018
Commitments to grant loans	**$ 9,397,000**	$ 6,977,750
Unfunded commitments under lines of credit	**44,859,078**	40,407,103
Letters of credit	**2,776,834**	5,368,134

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer’s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2019 and 2018 was $2,776,834 and $5,368,134, respectively. The current amount of the liability as of December 31, 2019 and 2018 for guarantees under standby letters of credit issued is not material.

15. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Total, Tier 1, and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

In July 2013, the federal banking agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III, that (i) introduced a new capital ratio pursuant to the prompt corrective action provisions, the common equity tier 1 capital to risk weighted assets ratio, (ii) increased the adequately capitalized and well capitalized thresholds for the Tier 1 risk based capital ratios to 6% and 8%, respectively, (iii) changed the treatment of certain capital components for determining Tier 1 and Tier 2 capital, and (iv) changed the risk weighting of certain assets and off balance sheet items in determining risk weighted assets. The new rules, which were effective January 1, 2015, also require that banks maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer was phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

The Bank's actual capital amounts and ratios at December 31, 2019 and 2018 are presented below:

December 31, 2019	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	**$ 34,394**	**13.15%**	**$ ≥20,925**	**≥8.0%**	**$ ≥27,464**	**≥10.5%**	**$ ≥26,156**	**≥10.0%**
Tier 1 capital (to risk-weighted assets)	**27,891**	**10.66%**	**≥15,694**	**≥6.0%**	**≥22,233**	**≥8.5%**	**≥20,925**	**≥ 8.0%**
Common Equity Tier 1 capital (to risk-weighted assets)	**27,891**	**10.66%**	**≥11,770**	**≥4.5%**	**≥18,309**	**≥7.0%**	**≥17,002**	**≥ 6.5%**
Tier 1 capital (to average assets)	**27,891**	**8.63%**	**≥12,927**	**≥4.0%**	**N/A**	**N/A**	**≥16,158**	**≥ 5.0%**

December 31, 2018	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 31,464	13.69%	$ ≥18,386	≥8.0%	$ ≥22,695	≥9.875%	$ ≥22,982	≥10.0%
Tier 1 capital (to risk-weighted assets)	25,488	11.09%	≥13,789	≥6.0%	≥18,098	≥7.875%	≥18,386	≥ 8.0%
Common Equity Tier 1 capital (to risk-weighted assets)	25,488	11.09%	≥10,342	≥4.5%	≥14,651	≥6.375%	≥14,938	≥ 6.5%
Tier 1 capital (to average assets)	25,488	9.05%	≥11,262	≥4.0%	N/A	N/A	≥14,077	≥ 5.0%

The Bank is subject to certain restrictions on the amount of cash dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

16. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to these respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. In accordance with the accounting guidance adopted by the Bank, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurement guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

> Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
>
> Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
>
> Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2019 and 2018 are as follows:

December 31, 2019	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U. S. government agency securities	**$ 19,991,800**	**$ -**	**$ 19,991,800**	**$ -**
U. S. government mortgage-backed securities, residential	**10,167,870**	**-**	**10,167,870**	**-**
	$ 30,159,670	**$ -**	**$ 30,159,670**	**$ -**

December 31, 2018		Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Securities available-for-sale:								
U. S. government agency securities	$	19,984,399	$	-	$	19,984,399	$	-
U. S. government mortgage-backed securities, residential		10,793,896		-		10,793,896		-
	$	30,778,295	$	-	$	30,778,295	$	-

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2019 and 2018 are as follows:

December 31, 2019		Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Impaired loans	**$**	**792,411**	**$**	**-**	**$**	**-**	**$**	**792,411**
December 31, 2018								
Impaired loans	$	479,755	$	-	$	-	$	479,755

There were no non-financial assets measured at fair value on a nonrecurring basis at December 31, 2019 and 2018.

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Quantitative information about Level 3 Fair Value Measurements at December 31, 2019 is included in the table below:

December 31, 2019	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	**$ 792,411**	**Appraisal of property**	**Liquidation expenses**	**15.0%-15.0% (15.0%)**

Quantitative information about Level 3 Fair Value Measurements at December 31, 2018 is included in the table below:

December 31, 2018	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	$ 479,755	Appraisal of property	Liquidation expenses	6.0%-6.0% (6.00%)

Below is management's estimate of the fair value of all financial instruments whether carried at cost or fair value on the Bank's balance sheet. The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful.

Fair value estimates, methods and assumptions for the Bank's financial instruments are set forth below:

Cash and Short-Term Time Deposits (Carried at Cost)

The carrying amounts reported in the balance sheets for cash and due from banks and short-term time deposits approximate their fair values due primarily to their short-term nature.

Securities

The fair value of securities available-for-sale (carried at fair value) and held-to-maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans Receivable (Carried at Cost)

The fair values of loans other than impaired loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. Impaired loans with current year write downs are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value at December 31, 2019 consists of loan balances of $932,248, net of related allowances of $139,837. The fair value at December 31, 2018 consists of loan balances of $716,755, net of partial charge-offs of $237,000.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Servicing Rights (Carried at Lower of Cost or Fair Value)

The fair values of the servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporates assumptions that market participants would use in estimating future net servicing income.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and payable approximates fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Borrowings (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt (Carried at Cost)

The fair values of subordinated debt are estimated using discounted cash flow analysis, based on current interest rates from debt with similar credit risk characteristics, terms and remaining maturity.

Off-Balance Sheet Instruments (Disclosed at Cost)

Off-balance sheet instruments are primarily comprised of loan commitments that are generally priced at market at the time of funding. Fees on commitments to extend credit are deemed to be immaterial, and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments.

The following tables summarize the carrying amount and fair value estimates of the Bank's financial instruments at December 31, 2019 and 2018 (in thousands):

December 31, 2019	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	$ **3,115**	$ **3,115**	$ **3,115**	$ **-**	$ **-**
Securities available-for-sale	**30,160**	**30,160**	**-**	**30,160**	**-**
Securities held-to-maturity	**6,961**	**7,051**	**-**	**7,051**	**-**
Loans receivable, net	**277,695**	**280,303**	**-**	**-**	**280,303**
Restricted investment in bank stock	**1,540**	**1,540**	**-**	**1,540**	**-**
Servicing rights	**114**	**114**	**-**	**114**	**-**
Accrued interest receivable	**830**	**830**	**-**	**830**	**-**
Liabilities:					
Demand and savings deposits	**164,848**	**164,848**	**-**	**164,848**	**-**
Time deposits	**104,952**	**105,836**	**-**	**105,836**	**-**
Accrued interest payable	**289**	**289**	**-**	**289**	**-**
Short-term borrowings	**10,896**	**10,896**	**-**	**10,896**	**-**
Long-term borrowings	**21,046**	**21,196**	**-**	**21,196**	**-**
Subordinated debt	**3,995**	**4,370**	**-**	**4,370**	**-**
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	**-**	**-**	**-**	**-**	**-**
Unfunded commitments under lines of credit	**-**	**-**	**-**	**-**	**-**

December 31, 2018	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	$ 6,334	$ 6,334	$ 6,334	$ -	$ -
Securities available-for-sale	30,778	30,778	-	30,778	-
Securities held-to-maturity	6,984	6,783	-	6,783	-
Loans receivable, net	242,707	240,477	-	-	240,477
Restricted investment in bank stock	1,645	1,645	-	1,645	-
Servicing rights	135	135	-	135	-
Accrued interest receivable	773	773	-	773	-
Liabilities:					
Demand and savings deposits	144,746	144,746	-	144,746	-
Time deposits	91,456	90,745	-	90,745	-
Accrued interest payable	220	220	-	220	-
Short-term borrowings	17,000	17,000	-	17,000	-
Long-term borrowings	18,516	18,223	-	18,223	-
Subordinated debt	3,986	4,048	-	4,048	-
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-

17. Revenue Recognition

The Bank adopted Topic 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of Topic 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled.

Management determined that revenue derived from financial instruments, including revenue from loans and investment securities, along with non-interest income resulting from gains (losses) from the sale of investment securities or SBA loans, commitment and other loan related fees as well as income from bank owned life insurance are not within the scope of Topic 606. As a result, no changes were made during the period related to these sources of revenue.

Topic 606 is applicable to non-interest income streams such as service charges on deposits and other non-interest income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of monthly service charges, check orders, other deposit account related fees, wire transfers, returned deposit fees, and safe deposit box rentals. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The Bank's performance obligation for wire transfers, returned deposit fees, and safe deposit box rental are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other

Other fees are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Bank's debit cards are processed through card payment networks such as MasterCard, Visa and STAR. ATM fees are primarily generated when a non-Bank customer uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions. Other noninterest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2019 and 2018.

For the Years Ended December 31,	**2019**	2018
	(Dollars in thousands)	
Non-Interest Income		
In-scope of Topic 606:		
Service charges on deposits	**$ 284,655**	$ 234,448
Other	**101,625**	81,305
Non-interest income (in scope of Topic 606)	**386,280**	315,753
Non-interest income (out of scope of Topic 606)	**478,915**	245,513
Total Non-Interest Income	**$ 865,195**	$ 561,266

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Bank's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2019 and December 31, 2018, the Bank did not have any contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Bank utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Bank did not capitalize any contract acquisition cost.

18. Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2019 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 27, 2020, the date these financial statements were available to be issued.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Bank's financial condition, liquidity, and future results of operations. The adverse economic effects of the coronavirus may lead to an increase in credit risk on the Bank's commercial and residential loan portfolios. Likewise, the Bank is also monitoring the fluctuations in the markets as it pertains to interest rates and fair value of our investments for other than temporary impairment. A decrease in results of future operations may place a strain on the Bank's capital reserve ratios. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Bank is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020. If these disruptions continue, this may have an adverse effect on the Bank's results of future operations, financial position, and liquidity in fiscal year 2020.

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